Michigan Judges' Retirement System

a Pension Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2003

M J R S

Prepared by:
Financial Services
For
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
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Table of Contents

The cost of printing this report was $1,808.65 ($7.23 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Judges' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Letter of Transmittal

Michigan Judges' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517- 322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 5, 2003

The Honorable Jennifer M. Granholm
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2003.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The Michigan Judges' Retirement System was established by legislation under Public Act 234 of 1992 which consolidated the Judges' and former Probate Judges' retirement systems. The System is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all judges. The services performed by the staff provide benefits to members.

The 2003 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to be resourceful and to drive forward creative innovations that build on our dedication to customer service. Our daily business activities are tied to achieving our mission of delivering pensions, related benefits, and services to promote the future financial security of our customers. In this fiscal year, we have welcomed our new governor, deployed the beginnings of our Vision ORS technology solutions, responded to new policies and legislation, and energized and trained our staff on the new tools available to them. Here are some of the highlights.

Focus on Our Customer

During the 2003 fiscal year, ORS hosted 9,282 members at our pre-retirement information meetings and personally counseled 7,632 members. This is on top of the 242,000 members who took advantage of our toll-free phone service for retirement information and services.

An independently-conducted survey of 519 retirees and active members tells us that our services met or exceeded the expectations of 87% of our customers. This survey was the last in a series of four conducted over the course of a year. The scores for this most recent survey show that our services are more accurate, our information is more useful, and the knowledge of our counselors has risen. We continue to work on providing services faster and on delivering services at the time our customers most need them.

The Health Insurance Portability and Accountability Act (HIPAA) triggered an important awareness of the large amount of private information we handle daily. It gave us the chance to evaluate existing policies and procedures and to ensure that member information is handled confidentially. Where needed, policies were revised and all ORS staff received training on HIPAA provisions.

Because probate judges are not paid using the State payroll system, they have a separate administrative process that allows their payroll deferrals to be entered into the Defined Contribution Retirement Plan. This administrative process limited probate judges participation to only the DC 401(k) program. In the interest of improved customer service, ORS expanded this system so probate judges can take advantage of the voluntary Deferred Compensation 457 and 401(k) plans. More than 28 counties now participate in this expanded program.

Optimize Technology and Continuously Improve

Judges were supplied with a new investment tool: the CitiStreet Advisor. This web-based product helps customers set personal retirement goals and recommends savings and investment adjustments. It evaluates CitiStreet investments and allows customers to include spouse's investment information. This is the first of many retirement planning tools that will be offered to help customers plan for their financial futures. CitiStreet is the third party administrator and custodian for the deferred compensation/defined contribution plans. Customers can now obtain information about their defined benefit *and* their deferred compensation/defined contribution retirement benefits in a single location.

To get the documents that drive our business processed faster, ORS deployed document scanning in our mailroom. With this innovation, documents are received, scanned and coded into a database, then delivered into electronic in-baskets. Applications, correspondence, insurance changes and other requests are now delivered to the people who process the requests within four hours of receiving the mail.

The challenge of reaching our membership in northern Michigan with quality retirement planning information is now being met with the help of videoconferencing tools. Videoconferencing allows ORS staff to provide face-to-face presentations for as many as three different locations at the same time. Attendees will be able to see the presenter, view the materials presented (such as Power Point slides and printed documents), and ask questions.

Member surveys and letters, conversations with members and member organizations, and regular discussions with our staff tell us that we are making great strides toward our vision. This success inspires us to continue to improve. The continued deployment of our Vision Project technology will provide even more opportunities to evaluate and improve ORS' service to customers.

Letter of Transmittal (Continued)

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FINANCIAL INFORMATION

Please refer to Management's Discussion and Analysis in the Financial Section for condensed financial information and activities of the current and prior fiscal years.

Accounting System
Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe that the accounting and administrative internal controls established by the System provide reasonable assurance that the System is carrying out its responsibilities in safeguarding its assets, in the reliability of the financial records for preparing the financial statements, and in maintaining accountability for its assets.

INTERNAL CONTROL

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

INVESTMENT

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 14.8%. For the last five years, the System has experienced an annualized rate of return of 4.0%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

FUNDING

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. As of September 30, 2003, the actuarial value of the assets and actuarial accrued liability of the System were $292.3 million and $235.2 million, respectively, resulting in a funded ratio of 124.3%. As of September 30, 2002, the amounts were $291.7 million and $229.2 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Letter of Transmittal (Continued)

POSTEMPLOYMENT BENEFITS

The System also administers the postemployment health benefits (health, dental, and vision) offered to eligible retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $4.9 million and the employer contribution for health care benefits would be 7.8%.

PROFESSIONAL SERVICES

An annual audit of the System was conducted by Andrews Hooper & Pavlik P.L.C., independent auditors. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by the Segal Company for the fiscal years ended September 30, 2003, and 2002. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

ACKNOWLEDGMENTS

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors, and many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable the employers and plan members to better evaluate and understand the Michigan Judges' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Mitch Irwin

Mitch Irwin, Director
Department of Management and Budget

Christopher M. DeRose

Christopher M. DeRose, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

Eric E. Doster, Vice Chair
Trustee (General Public)
Term Expires March 31, 2003

Judge Robert Ransom
Representing Active Judges
Term Expires March 31, 2005

George M. Elworth
Representing Attorney General
Statutory Member

Lyle Van Houten, Chair
Trustee (General Public)
Term Expires March 31, 2003

Mark Haas
Representing State Treasurer
Statutory Member

*Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuary
The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

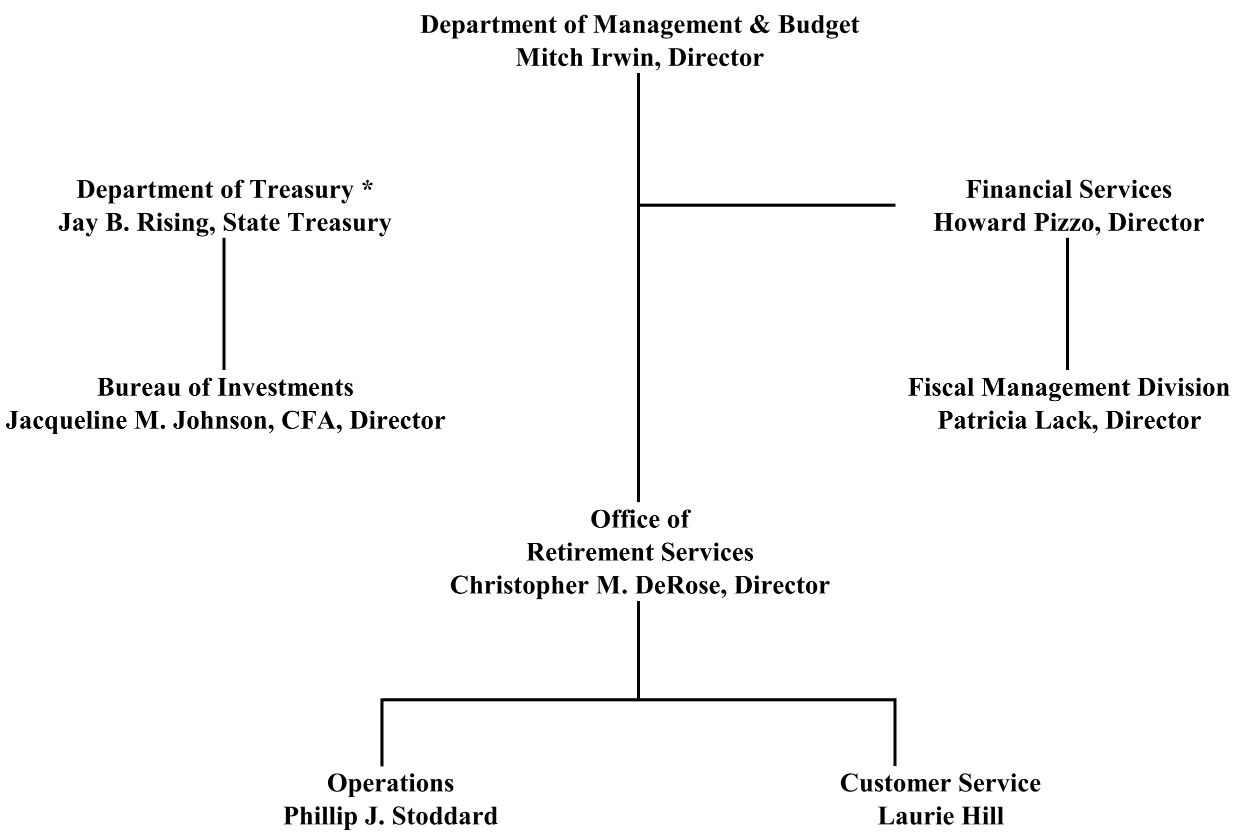
Investment Manager and Custodian
Jay B. Rising
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Investment Performance Measurement
CRA RogersCasey
Chicago, Illinois

Administrative Organization (Continued)

Organization Chart



*** The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.**

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Notes to Required Supplementary Information
Supporting Schedules

Financial Section

Independent Auditor's Report

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Mr. Mitch Irwin, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan Judges' Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2003 and 2002, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2003 and 2002, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan Judges' Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2003 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
November 26, 2003

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2003 by $254.5 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2003, the funded ratio was approximately 124.3%.
- Revenues for the year were $37.6 million, which is comprised of member contributions of $2.7 million, court fees of $265.0 thousand, and investment gains of $34.6 million.
- Expenses increased over the prior year from $16.8 million to $17.8 million or 6.0%

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2003, were $261.7 million and were mostly comprised of cash and investments. Total assets increased $17.9 million or 7.3% between fiscal years 2002 and 2003 primarily due to increased investment earnings, and decreased $41.3 million or 14.5% between fiscal years 2001 and 2002 primarily due to decreased investment earnings.

Total liabilities as of September 30, 2003, were $7.1 million and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $1.9 million or 20.7% between fiscal years 2002 and 2003 and decreased $1.9 million or 17.2% from fiscal year 2001 to fiscal year 2002.

System assets exceeded its liabilities at the close of fiscal year 2003 by $254.5 million. Total net assets held in trust for pension and health benefits increased $19.8 million or 8.4% between fiscal years 2002 and 2003, primarily due to an increase in investment earnings and a decrease in obligations under securities lending. This differs from fiscal year 2002, when total net assets held in trust for pension and health benefits decreased by $39.5 million or 14.4% from fiscal year 2001.

Net Assets
(In Thousands)

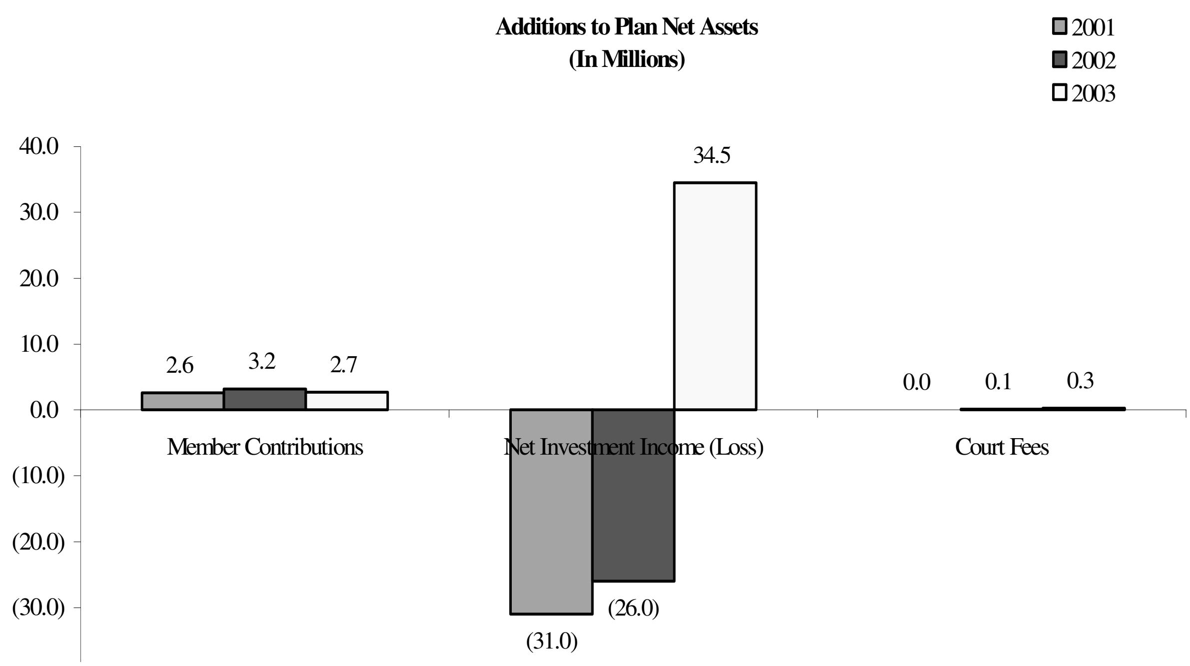
	2003	Increase/ (Decrease)	2002	Increase/ (Decrease)	2001
Assets					
Cash	$ 1,142	(64.6) %	$ 3,223	(25.5) %	$ 4,326
Receivables	783	(30.6)	1,128	(2.4)	1,156
Investments	259,738	8.5	239,402	(14.4)	279,609
Total Assets	261,663	7.3	243,753	(14.5)	285,091
Liabilities					
Warrants outstanding	76	13.4	67	4.7	64
Accounts payable and other accrued liabilities	82	(59.6)	203	(81.0)	1,071
Obligations under securities lending	6,974	(20.1)	8,723	(10.4)	9,731
Total Liabilities	7,132	(20.7)	8,993	(17.2)	10,866
Total Net Assets	$254,531	8.4 %	$234,760	(14.4) %	$274,225

Management's Discussion and Analysis (Continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions, earnings on investments, and court fees. Contributions, net investment income/(losses) and court fees for fiscal year 2003 totaled $37.6 million.

Total contributions, net investment income, and court fees increased $60.3 million from those of fiscal year 2002 due primarily to increased investment earnings. Total contributions and net investment income increased $5.7 million or 20.0% from fiscal year 2001 to fiscal year 2002 for the same reasons. Since the System was over funded and the total contribution rate was negative, there were no employer contributions during the year. Investment earnings increased between fiscal years 2002 and 2003 by $60.5 million. Investment income increased between fiscal year 2001 and fiscal year 2002 by $5.0 million or 16.1%. Court fees totaled $265.0 thousand. The Investment Section of this report reviews the results of investment activity for 2003.



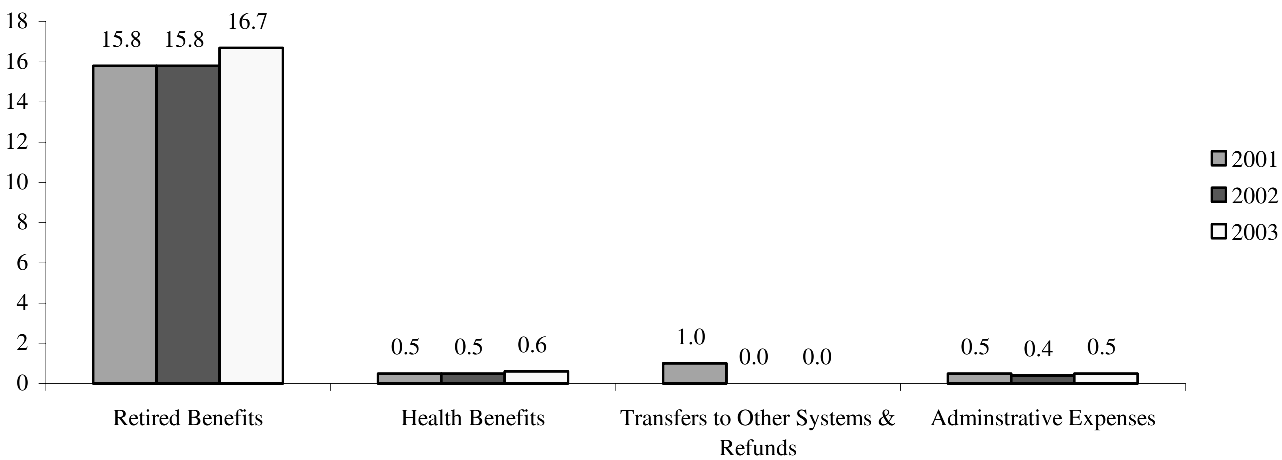
Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2003 were $17.8 million, an increase of 6.0% from fiscal year 2002 expenses. Total deductions for fiscal year 2002 were $16.8 million, a decrease of 5.6% from fiscal year 2001 expenses.

The growth of health, dental and vision care expenses continued during the year and increased by $45.1 thousand or 8.7% from $519.7 thousand to $564.8 thousand during the fiscal year. This compares to an increase of $14.2 thousand or 2.8% from $505.5 thousand to $519.7 thousand between fiscal years 2001 and 2002. The payment of pension benefits increased by $918.1 thousand or 5.8% between fiscal years 2002 and 2003, and by $16.8 thousand or .1% from fiscal year 2001 to 2002. Refunds of contributions to members decreased by $51.8 thousand or 98.0% in fiscal year 2003, while refunds of contributions to members decreased by $12.1 thousand or 18.6% between fiscal years 2001 and 2002. Administrative expenses increased by $95.6 thousand or 23.6% between fiscal years 2002 and 2003. Administrative expenses decreased by $95.5 thousand or 19.1% between fiscal years 2001 and 2002.

Deductions in Plan Net Assets
(In Millions)



Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have once again experienced an increase following decreases in the previous two years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	$ 1,141,546		$ 1,141,546	$ 3,223,202		$ 3,223,202
Receivables:						
Amounts due from employers	67,539	$ 108	67,647	72,358	$ 173	72,531
Interest and dividends	703,339		703,339	1,016,968		1,016,968
Sale of investments	12,007		12,007	38,849		38,849
Total receivables	782,885	108	782,993	1,128,175	173	1,128,348
Investments:						
Short term investments	12,623,735		12,623,735	5,275,841		5,275,841
Bonds and notes	52,232,869		52,232,869	58,940,417		58,940,417
Common and preferred stock	113,100,969		113,100,969	98,111,657		98,111,657
Real estate and mortgages	28,718,203		28,718,203	29,159,837		29,159,837
Alternative investments	24,858,846		24,858,846	23,817,881		23,817,881
International investments	21,229,017		21,229,017	15,373,340		15,373,340
Collateral on loaned securities	6,974,336		6,974,336	8,722,667		8,722,667
Total investments	259,737,975	-	259,737,975	239,401,640	-	239,401,640
Total assets	261,662,406	108	261,662,514	243,753,017	173	243,753,190
Liabilities:						
Warrants outstanding	75,758	122	75,880	67,152	160	67,312
Accounts payable and other accrued liabilities	81,656		81,656	203,018		203,018
Internal balances	(408,020)	408,020	-	(559,281)	559,281	-
Obligations under securities lending	6,974,336		6,974,336	8,722,667		8,722,667
Total liabilities	6,723,730	408,142	7,131,872	8,433,556	559,441	8,992,997
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	$ 254,938,676	$ (408,034)	$ 254,530,642	$ 235,319,461	$ (559,268)	$ 234,760,193

* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For the Fiscal Years Ending September 30, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions	$ 2,288,608	$ 451,035	$ 2,739,643	$ 2,857,224	$ 362,987	$ 3,220,211
Investment income (loss):						
Investment income (loss)	34,904,136		34,904,136	(25,792,190)		(25,792,190)
Investment expenses:						
Real estate operating expenses	(8,887)		(8,887)	(3,506)		(3,506)
Other investment expenses	(359,526)		(359,526)	(247,925)		(247,925)
Securities lending activities:						
Securities lending income	143,857		143,857	229,142		229,142
Securities lending expenses	(119,304)		(119,304)	(183,617)		(183,617)
Net investment income (loss)	34,560,276	-	34,560,276	(25,998,096)	-	(25,998,096)
Court Fees		265,000	265,000		100,000	100,000
Miscellaneous	12		12	-		-
Total additions	36,848,896	716,035	37,564,931	(23,140,872)	462,987	(22,677,885)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	16,728,017		16,728,017	15,809,951		15,809,951
Health benefits		564,801	564,801		519,669	519,669
Return of contributions	1,074		1,074	52,862		52,862
Administrative expenses	500,590		500,590	404,983		404,983
Total deductions	17,229,681	564,801	17,794,482	16,267,796	519,669	16,787,465
Net increase (decrease)	19,619,215	151,234	19,770,449	(39,408,668)	(56,682)	(39,465,350)
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	235,319,461	(559,268)	234,760,193	274,728,129	(502,586)	274,225,543
End of year*	$ 254,938,676	$ (408,034)	$ 254,530,642	$ 235,319,461	$ (559,268)	$ 234,760,193

* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

The accompanying notes are an integral part of these financial statements.

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. The System was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. There are 173 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the Systems' Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2003, and 2002, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2003**	**2002**
Regular benefits	368	353
Survivor benefits	176	177
Disability benefits	7	5
Total	551	535
Current employees:		
Vested	282	270
Non-vested	55	97
Total	337	367
Inactive employees entitled to benefits and not yet receiving them	13	16
Total all members	901	918

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in the State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2003, and 2002, there are a total of 551 and 535 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is on the following page:

Notes to Basic Financial Statements (Continued)

	2003	2002
Participants receiving benefits:		
Health	79	74
Dental	141	134
Vision	103	95

BENEFIT PROVISIONS

Benefit provisions of the defined benefit pension plan are established by State Statute, which may be amended. Public Act 234 of 1992, Michigan Judges' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

A member who leaves judicial service may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits. Returning members who previously received a refund of their contributions may reinstate their service credit through repayment of the refund upon satisfaction of certain requirements. For salary, contribution and calculation of retirement benefit, the membership of the System is categorized into seven plans. The categories are based on the position to which the member was elected or appointed.

Public Act 523 of 1996, which was effective March 31, 1997, closed the plan to new entrants. Judges or State officials newly appointed or elected on or after March 31, 1997, become members of the defined contribution plan.

Regular Retirement

The retirement benefit or allowance is calculated in accordance with the formula of the plan which applies to the member. The formula is based on a member's years of credited service (employment) and final compensation. The normal retirement benefit is payable monthly over the lifetime of a member.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 8 or more years of credited service; or
2. age 55 with 18 or more years of credited service (the last 6 years continuous); or
3. 25 or more years of service, the last 6 years continuous; no age requirement; or
4. age 60 with service of two full terms in the office of Governor, Lieutenant Governor, Secretary of State, or Attorney General, or one full term in the office of Legislative Auditor General.

Early Retirement

A member may retire with an early permanently reduced pension:

1. after completing at least 12 but less than 18 years of service, of which the last 6 years are continuous; and
2. after attaining age 55.

The early pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Notes to Basic Financial Statements (Continued)

Deferred Retirement

A member with 8 or more years of credited service who terminates judicial service before meeting the age requirements to receive a retirement allowance and who does not withdraw his or her contributions, is entitled to receive a monthly allowance upon reaching age 60 or age 55 with 18 years of service, the last 6 of which were continuous.

Disability Benefit

A member with 8 or more years of credited service, who is totally disabled from physically or mentally performing his or her duties, is eligible for a disability pension. The disability benefit is computed in the same manner as an age and service allowance based upon service and final salary at the time of disability.

Pension Payment Options

A pension is payable monthly for the lifetime of a System retiree and equals 3% of final salary times years of service for up to 12 years of service; or 50% of salary with 12 years, increased 2.5% for each additional year up to a maximum of 60% of salary. A former retiree of the Probate Judges' Retirement System receives 3% of salary times years of service, to a maximum of the greater of 40% of salary or $15,000 but not to exceed 66 2/3% of final salary when added to a county pension; or 3.5% of salary times years of service with a maximum of two thirds of final salary, if elected.

Straight Life — This option provides the highest monthly retirement allowance. Surviving spouse receives a 50% survivor's benefit.

Option A — Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary.

Option B — Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is smaller than the factor used in Option A above.

Survivor Benefit

A survivor benefit may be paid if (i) a member who has 8 or more years of credited service dies while in office, (ii) a vested former member dies before retirement, or (iii) a retiree dies following retirement.

Contributions

Member Contributions — Members currently participate on a contributory basis. For contribution purposes, the membership of the System is categorized in seven plans, which are based on the position to which the member was elected or appointed. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or other public service. If a member terminates covered employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal years 2003 and 2002. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level

Notes to Basic Financial Statements (Continued)

of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal year 2003, this amount was $165,000. In addition, the court fee fund shall transfer an amount not to exceed $100,000 in each fiscal year, any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997.

Other Postemployment Benefits

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% and 1.5% for 2003 and 2002, respectively. There are no required employer contributions to fund health benefits.

All retirees may enroll in the State Dental and/or Vision Plan during an open enrollment period. The cost of the premiums is deducted from the monthly pension check.

Retirees of Plan 1 and 2 are provided with life insurance coverage equal to 25% of the active life insurance coverage and $1,000 for each dependent. Premiums are fully paid by the State for Plan 1 and 2 members. All others must pay the full premium.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

These financial statements are prepared using the accrual basis of accounting. Court filing fees are recognized as revenue in the period received. Contributions from the State are recognized as revenue when due and payable and expenses are recorded when incurred regardless of when payment is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Reserves

Public Act 234 of 1992, as amended, created several reserve accounts. The reserves are described below.

<u>Reserve for Employee Contributions</u> — This fund represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefits for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2003, and 2002, the balance in this account was $36.3 million and $35.1 million, respectively.

<u>Reserve for Employer Contributions</u> — This reserve represents Court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2003, and 2002, the balance in this account was $48.1 million and $45.2 million, respectively.

Notes to Basic Financial Statements (Continued)

Reserve for Retired Benefit Payments — This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2003, and 2002, the balance in this account was $117.0 million and $119.7 million, respectively.

Reserve for Undistributed Investment Income — This reserve is credited with all investment earnings, changes in fair value, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2003, and 2002, the balance in this account was $53.6 million and $35.3 million, respectively.

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2003, and 2002, the balance in this account was ($408.0 thousand) and ($559.3 thousand), respectively.

Internal Balances – At September 30, 2003, the System reported a deficit in the Health Plan. As a result, amounts reported in the Statement of Plan Net Assets have been recognized and eliminated using the internal balances process described in GASB Statement No. 34. While this concept was devised to eliminate the "grossing-up" effect within the governmental and business-type activities columns of the primary government, because of the relationship of the Health Plan to the Pension Plan, the concept was deemed to be appropriate for System presentation.

Reporting Entity

The System is a pension trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board are not financially accountable for any other entities. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are presented at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is

Notes to Basic Financial Statements (Continued)

ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the general fund appropriation based on either a direct cost or allocation basis depending on the nature of the expense.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Postemployment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	2003	2002
Building Rentals	$ 1,324	$ 4,220
Technological Support	14,889	17,491
Attorney General	19,374	11,331
Investment Services	33,054	64,315
Personnel Services	201,590	13,510

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2004. As of September 30, 2003, the System's portion of this commitment remaining is approximately $23,000.

Cash – On September 30, 2003, and 2002, the System had $1.1 million and $3.2 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $15.0 thousand and $41.9 thousand for the years ended September 30, 2003, and 2002, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

Notes to Basic Financial Statements (Continued)

NOTE 3 - CONTRIBUTIONS

Members' contributions range from 3.5% to 7% of their salary depending on the plan (described in statute). Contributions are tax deferred under Section 414(h)(2) of the Internal Revenue Code, except for probate judges whose contributions are tax deferred only if the local unit of government has adopted a resolution to do so. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the System was fully funded, the appropriation was not requested for fiscal years 2002 or 2003. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

Employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles. Under this method, amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given period of time.

There were no actual or required employer contributions for the fiscal years 2002 or 2003 because the contribution rate was negative.

NOTE 4 – INVESTMENTS

Risks and Uncertainties

The System's investments are exposed to various risks, such as interest rate, market, credit, and other. Due to these various risks, it is at least reasonably possible that changes in market values will occur in the near term and that such changes could materially affect the System and the amount reported in the statement of net assets as available for benefits.

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stock, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the act and up to 20% of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Derivatives

The State Treasurer does not employ the use of derivatives in the investment of the Common Cash or the investment of trust funds other than the pension trust funds.

Notes to Basic Financial Statements (Continued)

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 10% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 7.9% of market value of total assets on September 30, 2003, and 6.6% of market value of total assets on September 30, 2002.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2003, and 2002, were $21.7 million and $21.7 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2003 to September 2006. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of equity investment programs involving swaps, over $4.3 million of gains on equity exposure and excess interest received have been realized. The unrealized loss of $1.7 million at September 30, 2003, primarily reflects the decline in international stock indices and changes in currency exchange rates. Many of the international indices peaked in 1999 and 2000, and the combined swap structure realizes gains and losses on a rolling three year basis.

The respective September 30, 2003, and 2002 values are as follows:

	Notional Value	Current Value
9/30/2003 (dollars in millions)	$ 21.7	$ 20.0
9/30/2002 (dollars in millions)	21.7	14.9

The amounts shown above reflect both the total international swap exposure and the smaller derivative exposure to the S&P 600.

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2003, or 2002.

Securities Lending

State statutes allow the retirement system to participate in securities lending transactions, and the retirement system has, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

Notes to Basic Financial Statements (Continued)

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in the United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in the United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral or other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2003, such investment pool had an average duration of 81 days and an average weighted maturity of 420 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2003, the System had no credit risk exposure to borrowers. The cash collateral, non-cash collateral, and market value of securities on loan for the System as of September 30, 2003, was $6,974,336, $188,723 and $6,982,745 respectively.

Gross income from security lending for the fiscal year was $143,857. Expenses associated with this income were the borrower's rebate of $110,845 and fees paid to the agent of $8,459.

Categories of Investment Risk

Investments made by the fund are summarized on the following page. The investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories.

Category 1 includes investments insured, registered, or held by the System or its agent in the System's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or agent, but not in the System's name.

At September 30, 2003, all investments of the System were classified as Category 1 or Category 3, except for certain investments not categorized.

The table on the following page summarizes the investments at fair value:

Notes to Basic Financial Statements (Continued)

	2003		2002	
Category 1				
Prime Commercial Paper	$	12,623,735	$	5,275,841
Government Securities		28,751,847		30,733,502
Corporate Bonds and Notes		19,251,968		22,223,606
Common and Preferred Stock		110,154,482		95,175,359
Alternative Investments[2]		301,681		472,570
International Investments[3]		19,657,461		14,807,753
Total Category 1	$	190,741,174	$	168,688,631
Category 3				
Government Securities	$	363,231	$	500,000
Non-Categorized				
Real Estate and Mortgages[1]		28,718,203		29,159,837
Alternative Investments[2]		24,555,096		23,345,311
International Investments[3]		1,403,190		565,587
Cash Collateral		6,974,336		8,722,667
Securities on Loan:				
Government Securities		3,283,847		5,012,859
Corporate Bonds & Notes		581,976		470,450
Alternative Investments[2]		2,069		-
International Investments[3]		168,366		-
Common Stock		2,946,487		2,936,298
Total Non-Categorized	$	68,633,570	$	70,213,009
Grand Total	$	259,737,975	$	239,401,640

[1] Non-Categorized Real Estate consists of investments in real estate through various legal entities.

[2] In Category 1, the Alternative Investments are small-cap equities. Non-Categorized Alternative Investments consist of limited partnerships and securities on loan.

[3] In category 1, the International Investments consist of International Swap Derivatives and ADRs (American Depository Receipts), the Non-Categorized International Investments consist of Primary Market and Extended Market Index Funds and securities on loan.

Notes to Basic Financial Statements (Continued)

NOTE 5 - COMMITMENT AND CONTINGENCIES

Harvey et al v. Judges' Retirement System

The System is named as defendant in a State case that alleges the statute discriminates against certain members as a result of differences in contribution rates and benefit allowances. The State's summary disposition motion argued that the alleged inequity between out-state judges and 36th District Judges is not unconstitutional due to the interaction between the Judges' Retirement System and local government retirement plans, which are available to out-state judges and which can grant more benefits to out-state judges than are available to 36th District Judges.

Subsequent to a March 29, 2000, Circuit Court opinion for the System, an order was issued granting the System's motion for summary disposition and dismissing the case. Petitioners appealed this decision. Oral arguments were heard on January 9, 2002, and the Circuit Court's order was reversed on May 5, 2002, by the Court of Appeals. The defendant appealed to the Supreme Court on May 31, 2002. The Michigan Supreme Court resolved the case favorably to the Judges' Retirement System in a decision released July 16, 2003.

Ernst et al v. Roberts et al

On September 5, 2001, legal action was initiated in U.S. District Court against members of the Judges' Retirement Board named as defendants. Plaintiffs were seeking monetary damages, and injunctive and declaratory relief for alleged equal protection violations, violations of common law wasting trust doctrine, and breach of fiduciary duties. In a motion for abstention, the State argued that equal protection complaints are essentially the same as those currently involved at the State appellate court in the Harvey case. Arguments supporting the State's motion for dismissal/summary judgment include State immunity from civil suits under the Eleventh Amendment, rejection of equal protection violations due to dissimilarities among plaintiffs, and defects within claims of wasting trust and breach of fiduciary duties.

On September 30, 2002, the Court dismissed all of Plaintiffs' claims. Plaintiffs appealed this decision. Parties have filed briefs and are awaiting oral argument on January 30, 2004.

The plantiffs also filed an Ingham Circuit Court action on December 4, 2002 raising many of the same claims as the federal litigation. That action has been held in abeyance for the resolution of the *Harvey* litigation (see above).

Hon. Thomas L. Gadola v. Michigan Judges' Retirement Board

On May 25, 2000, the petitioner filed a JRS DC Plan election form with JRS based on an APV Evaluation summary. JRS recalculated Petitioner's APV and on December 1, 2000, sent the Petitioner an adjusted APV that limits Petitioner to a retirement benefit that, when added to a retirement benefit from a county retirement plan, does not exceed 66 2/3% of his final compensation. The Board offered Petitioner 60 days to execute an election form and return to the State DB plan and the Genesee County Employees' DC Retirement Plan, and be made whole as if he had remained in the JRS DC plan. He declined the opportunity and administratively appealed the decision.

On October 29, 2001, a Proposal for Decision (PFD) was issued recommending that the December APV figure remain as the valid figure for purposes of Petitioner's election into the DC plan; that the Petitioner be afforded another opportunity to decide whether to continue in the DC plan or return to the DB plan; and that Respondent make Petitioner financially whole for any loss that Petitioner has or will incur as a result of not having a 10% annual contribution by Genesee County to his retirement plan, regardless of which state retirement plan Petitioner chooses. On January 23, 2003, the Board issued its final Decision and Order. Petitioner filed a Petition for Review on March 24, 2003. Both parties filed briefs. On September 27, 2003, the Petitioner died before filing a reply brief. On instructions from the court, the unsigned reply brief was filed on his behalf. No appearance of another attorney has been filed as of this date.

Notes to Basic Financial Statements (Continued)

Hon. Barry Grant v. Michigan Judges Retirement Board

On July 28, 2000, Petitioner requested an administrative hearing to challenge the lump sum amount used in calculating his final compensation, because it took into account his membership in the local county plan. On October 23, 2001, the Board adopted the recommendation of the Hearing Officer in the PFD to deny the relief requested by Petitioner. Petitioner filed a Petition for Review on June 7, 2002. The parties filed briefs in 2002 and are awaiting scheduling of oral argument. Since Petitioner filed this claim in the same circuit in which he sits, there have been several changes in the assigned judge.

Other

Under the Administrative Procedures Act, members may appeal a decision made by the Board to the Circuit Court. Various cases that have exhausted the administrative procedures have been appealed in the court system. The cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

Required Supplementary Information

Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Retirement Benefits ($ in Millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1994	$ 202.4	$ 197.0	$ (5.4)	102.7 %	$ 46.3	(11.6) %
1995	222.2	204.3	(17.9)	108.8	48.2	(37.1)
1996	243.2	211.5	(31.7)	115.0	49.4	(64.3)
1997	271.5	230.5	(40.9)	117.8	49.0	(83.6)
1998	288.7	236.5	(52.2)	122.0	48.9	(106.7)
1998 *	288.7	230.3	(58.4)	125.3	48.9	(119.4)
1999	320.9	243.5	(77.4)	131.8	49.6	(155.9)
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.8)

* Revised actuarial assumptions

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30		Actuarial Required Contribution (ARC)*	Actual Contributions	Percentage Contributed
1994	*	$ 6,638,110	$ 6,576,996	99.1 %
1995		6,559,552	6,228,812	95.0
1996		5,992,698	6,191,607	103.3
1997		5,527,350	5,673,583	102.6
1998		5,040,121	246,659	4.9
1999		4,673,433	-	0.0
1999	*	1,260,694	58,499	4.6
2000	**	(411,879)	-	0.0
2001	**	(955,186)	-	0.0
2002		(476,491)	-	0.0
2003		(135,812)	-	0.0

* Revised actuarial assumptions.
** ARC is calculated as percentage of payroll reported to actuary.

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

The Schedule of Funding Progress and Schedule of Employer Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	9/30/2003
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	33 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4.5%
Cost-of-Living Adjustments	None

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 2003 and 2002

	2003		2002	
Personnel Services:				
Staff Salaries	$197,868	*	$ 9,322	
Retirement and Social Security	2,214		2,428	
Other Fringe Benefits	1,508		1,760	
Total	201,590		13,510	
Professional Services:				
Actuarial	123,775		64,308	
Attorney General	19,374		11,331	
Audit	30,328		28,500	
Consulting	77,886		135,039	
Medical	-		3,563	
Total	251,363		242,741	
Building and Equipment:				
Building Rentals	1,324		4,220	
Equipment Purchase, Maintenance and Rentals	354		574	
Total	1,678		4,794	
Miscellaneous:				
Travel and Board Meetings	320		5,623	
Office Supplies	123		178	
Postage, Telephone and Other	27,470		116,369	*
Printing	3,157		4,277	
Technological Support	14,889		17,491	
Total	45,959		143,938	
Total Administrative Expenses	$500,590		$404,983	

*Staff Salaries were reported under the Miscellaneous category as Postage, Telephone and Other in FY02.

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2003	2002
Securities Lending Expenses	$ 119,304	$ 183,617
Real Estate Operating Expenses	8,887	3,506
Other Investment Expenses*	359,526	247,925
Total Investment Expenses	$ 487,717	$ 435,048

* See Investment Section for fees paid to investment professionals.

Schedule of Payments to Consultants

	2003	2002
Independent Auditors	$ 30,328	$ 28,500
Attorney General	19,374	11,331
Actuary	123,775	64,308
Consulting	77,886	135,039
Medical	-	3,563
Total Payment to Consultants	$ 251,363	$ 242,741

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2003

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
Additions:						
Member contributions	$ 2,288,608				$ 451,035	$ 2,739,643
Investment income (loss):						
Investment income (loss)				$ 34,904,136		34,904,136
Investment expenses:						
Real estate operating expenses				(8,887)		(8,887)
Other investment expenses				(359,526)		(359,526)
Securities lending activities:						
Securities lending income				143,857		143,857
Securities lending expenses				(119,304)		(119,304)
Net investment income (loss)	-	-	-	34,560,276	-	34,560,276
Court fees					265,000	265,000
Miscellaneous				12		12
Total additions	2,288,608	-	-	34,560,288	716,035	37,564,931
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			$ 16,728,017			16,728,017
Health benefits					564,801	564,801
Return of contributions	1,074					1,074
Transfers to other systems						-
Administrative expenses				500,590		500,590
Total deductions	1,074	-	16,728,017	500,590	564,801	17,794,482
Net increase (decrease)	2,287,534	-	(16,728,017)	34,059,698	151,234	19,770,449
Other changes in net assets:						
Interest allocation	2,640,550	$ 3,616,849	9,574,538	(15,831,937)		-
Transfers upon retirement	(3,720,288)	(774,162)	4,494,450			-
Total other changes in net assets	(1,079,738)	2,842,687	14,068,988	(15,831,937)	-	-
Net Increase (Decrease) After Other Changes	1,207,796	2,842,687	(2,659,029)	18,227,761	151,234	19,770,449
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	35,103,679	45,210,615	119,681,719	35,323,448	(559,268)	234,760,193
End of year	$ 36,311,475	$ 48,053,302	$ 117,022,690	$ 53,551,209	$ (408,034)	$ 254,530,642

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2002

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
Additions:						
Member contributions	$ 2,857,224				$ 362,987	$ 3,220,211
Investment income (loss):						
Investment income (loss)				$ (25,792,190)		(25,792,190)
Investment expenses:						
Real estate operating expenses				(3,506)		(3,506)
Other investment expenses				(247,925)		(247,925)
Securities lending activities:						
Securities lending income				229,142		229,142
Securities lending expenses				(183,617)		(183,617)
Net investment income (loss)	-	-	-	(25,998,096)	-	(25,998,096)
Court fees					100,000	100,000
Miscellaneous				-		-
Total additions	2,857,224	-	-	(25,998,096)	462,987	(22,677,885)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			$ 15,809,951			15,809,951
Health benefits					519,669	519,669
Return of contributions	52,862					52,862
Transfers to other systems						-
Administrative expenses				404,983		404,983
Total deductions	52,862	-	15,809,951	404,983	519,669	16,787,465
Net increase (decrease)	2,804,362	-	(15,809,951)	(26,403,079)	(56,682)	(39,465,350)
Other changes in net assets:						
Interest allocation	2,325,370	$ 3,972,651	9,334,143	(15,632,164)		-
Transfers upon retirement	(1,060,571)	(8,420,170)	9,480,741			-
Total other changes in net assets	1,264,799	(4,447,519)	18,814,884	(15,632,164)	-	-
Net Increase (Decrease) After Other Changes	4,069,161	(4,447,519)	3,004,933	(42,035,243)	(56,682)	(39,465,350)
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	31,034,518	49,658,134	116,676,786	77,358,691	(502,586)	274,225,543
End of year	$ 35,103,679	$ 45,210,615	$ 119,681,719	$ 35,323,448	$ (559,268)	$ 234,760,193

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jacqueline M. Johnson, CFA, Director

Report on Investment Activity

INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the Committee are as follows: James B. Henry, PhD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby, CFA (public member), David Hollister (ex-officio member), and Mitch Irwin (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOAL

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the fund are:

1. Assure the availability of sufficient assets to pay benefits.
2. Maintain sufficient diversification to avoid large losses and preserve capital.
3. Achieve the optimal rate of return possible within prudent levels of risk and liquidity.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the CRA RogersCasey public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner relative to peers.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently has six different asset classes, which provides for a well-diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

	As of 9/30/03		Five-Year
Investment Category	**Security Type**	**Strategy***	**Target %**
Domestic Equity	44.5%	45.7%	44.0%
International Equity	8.4%	8.4%	7.0%
Fixed Income	20.6%	21.6%	24.0%
Real Estate and Mortgages	11.3%	11.3%	12.0%
Alternative Investments	9.8%	9.9%	9.0%
Short Term Investments	5.4%	3.1%	4.0%
TOTAL	100.0%	100.0%	100.0%

*The Strategy column reflects the investment strategies and includes allocated short term, which is directly comparable to the Five-Year Target.

Report on Investment Activity (Continued)

STATE LAW

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

PROXY VOTING POLICY

The System's Proxy Voting Policy sets forth directives on the following issues: Boards of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the above-mentioned items.

INVESTMENT RESULTS

Total Fund Results

For the fiscal year ended September 30, 2003, the total fund's rate of return was 14.8% as compiled by CRA RogersCasey. Annualized rates of return for the three-year period ending September 30, 2003, were –2.4%; for the five-year period were 4.0%; and for the ten-year period were 8.4%.

Returns were calculated using a time-weighted rate of return based on the market rate of return in accordance with standards of the Association for Investment Management and Research (AIMR), unless a modification is described in the discussion of the reported return.

The solid returns were the result of strong performance by our equity portfolios. At the end of fiscal year 2002 and the first quarter of fiscal year 2003, investment staff increased the fund's weightings in depressed equity markets. This allowed the fund to benefit from the significant recovery experienced in equity markets as the year unfolded.

The U.S. economy gathered momentum in fiscal year 2003, except for the March quarter, which was buffeted by the headwinds of severe weather, the threat of war, high energy prices, and SARS. Growth resumed in the June quarter when weather patterns normalized, Baghdad fell quickly, energy prices stabilized, and SARS appeared contained. The economy was supported by the American consumer who took advantage of rising home values and very low interest rates. Corporate earnings rebounded at a double-digit rate, boosted by relentless cost cutting.

The Federal Reserve provided stimulus by lowering interest rates in November 2002 and again in June 2003, taking the Fed Funds rate to 1.00%, a level not seen since the 1950s. Inflation, as measured by the CPI, remained low at an annualized rate of 2.3%.

For the fiscal year, the Dow Jones Industrial provided a total return of 25.1%, while the broader S&P 500 returned 24.4%. The Lehman Brothers U.S. Aggregate Bond Index appreciated 6.5%.

The fund is well-positioned to benefit from continued economic recovery. It remains well-diversified both across and within asset classes.

Domestic Stocks – Active

The objective of actively managed domestic stock investments is long-term capital appreciation by investing in publicly traded stocks of primarily US-based companies. Monies are invested in a portfolio of large company Value stocks, large company Growth stocks, and small company Growth stocks. Since historical rates of return for value and growth

Report on Investment Activity (Continued)

strategies have been negatively correlated, this allows for further diversification and focused selection of investments. Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually correct to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Both portfolios are diversified among various securities and industries.

The US economy slumped early in fiscal year 2003 as a dockworker's strike in Los Angeles, rising energy prices and the prospects of war in Iraq weighed on both consumer and business spending. The weakness carried into the new calendar year as concerns over imminent war with Iraq grew. This was compounded by an outbreak of SARS in China, which slowed Asian markets. By late March, the economy began to recover as Baghdad fell, energy prices stabilized, and SARS appeared contained. The consumer drove economic growth as low interest rates allowed for cash out refinancing, putting money into the consumer's pocket. This was followed by the tax rebate checks sent in July and August, which further increased the cash holdings for consumers.

Early in the fiscal year, corporate earnings began to recover as companies relentlessly cut costs. The earnings recovery picked up steam later in the fiscal year as the economic recovery gained momentum. This provided a solid base for the positive performance in the equity markets in the second half of the fiscal year. The total return for the Dow Jones Industrial Average was 25.1% for the 12 months ending September 2003, while the return for the broader S&P 500 was 24.4%. The NASDAQ's price rose 52.5% during the fiscal year. The Federal Reserve lowered interest rates first in November and again in June, bringing the Federal Funds rate down to 1.00%. Inflation remained subdued during the period as the CPI held at an annualized rate of 2.3%

The Systems's large company Value portfolio achieved a total rate of return of 26.4% for fiscal 2003. This compared favorably with 26.5% for the S&P 500 BARRA Value Index due to the fund's investments in defense and financial stocks and little exposure to technology and telecommunication stocks. The large company Growth portfolio's total rate of return was 25.7% for the fiscal year versus 22.5% for the S&P 500 BARRA Growth Index. Relative out-performance can be attributed to positioning the portfolio for strong economic and market recoveries that began to materialize in the second half of the fiscal year.

On a consolidated basis, the domestic actively managed large capitalization stock portfolio had a total rate of return of 26.1% for fiscal year 2003 compared to 24.4% for the S&P 500 Index. Three-year and five-year annualized returns were –7.1% and 0.3%. This compared with –10.1% and 1.0% for the S&P 500.

At the close of fiscal year 2003, large company Value stocks represented 14.8% of total investments versus 14.2% at the end of fiscal year 2002. Large company Growth stocks represented 14.8% versus 13.6%. Consolidated actively managed large company domestic stocks represented 29.6% of total investments, compared to 27.9% at the end of fiscal year 2002.

The System maintains an investment position with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam).

The System's small company growth portfolio invested with Delaware achieved a total rate of return of 32.5 % for fiscal 2003. This under-performed the Russell 2000 Growth Index, which was 41.7% for the same period.

The System's small company growth portfolio invested with Putnam achieved a total rate of return of 41.7% for fiscal 2003. This compares favorably with 41.7% for the Russell 2000 Growth Index. Performance was positively impacted by selectivity and an overweight in technology.

At the close of fiscal year 2003, small company growth stocks represented 0.4% of total investments.

Report on Investment Activity (Continued)

Domestic Stocks - Passive

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was 24.4% versus the benchmark's 24.4%. The S&P MidCap Index Fund return for the fiscal year was 26.8% versus its benchmark's 26.8%. During fiscal year 2003, $3.8 million was withdrawn from US index funds. An S&P Small Cap Index Fund was established in June of 2002 to match the return of that targeted benchmark. The S&P Small Cap Index Fund return for the fiscal year was 26.6% versus the benchmark's 26.9%. At the end of the fiscal year, passive domestic stock portfolios represented 14.6% of total assets, the S&P 500 Index Fund accounting for 12.6%, the S&P MidCap Index Fund 1.8%, and the S&P Small Cap Index Fund 0.2%. Indexed stock portfolios represented 14.0% of total investment assets at the end of the prior fiscal year.

International Equities - Passive

The objective of passive international equity portfolios is to match the return performance of the Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of 22.0% in the fiscal year approximately matched the Citigroup BMI-EPAC return of 21.3%. The passive international return of –9.3% for three years approximately matched the benchmark's return of -9.5% over the same period.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, and an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility, and a country fund portfolio was added in September of 2002 to improve exposure to the smallest companies in the BMI index. During fiscal year 2003, $2.2 million was invested, raising passive international investments to 8.4% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $19.4 million on September 30, 2003. That valuation included a net unrealized loss of $1.7 million on equity index exposures and an unrealized loss of $6 thousand on LIBOR note investments held. The combined swap agreement and LIBOR portfolio structure continues to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2003, $2 million of losses on equity exposures were realized, $290 thousand of interest in excess of obligations on completed swaps was recognized, and $9 thousand of gains on LIBOR notes were realized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements was $4.3 million since the program began.

Fixed Income

For the fiscal year ending September 30, 2003, the Fixed Income portfolio returned 5.2% as compiled by CRA RogersCasey. For three years the return was 8.3% and 6.2% for five years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reduction in rates until the middle of June. Bond prices peaked on June 13 and rates, which are inversely related to prices, rose irregularly through the end of the fiscal year validating the fund's earlier shift to a defensive policy.

Fixed Income represented 20.6% of the total portfolio compared with 25.2% last year. Corporates represented 38.0% of fixed income securities and governments accounted for 62.0%. Last year corporates were 38.5% of the total and governments were 61.5%. Government securities continued to outweigh corporates as corporate spreads continued to be narrow.

Report on Investment Activity (Continued)

Real Estate and Mortgages

The System, through real estate advisors and operating joint ventures, acquires, develops, redevelops, and disposes of real estate related investments with the goal of maximizing returns while maintaining an acceptable level of risk. The investments are held in various investment vehicles that allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. The real estate is regularly valued by independent third parties to establish fair market values.

For the fiscal year ending September 30, 2003, 11.3% of the System's total investment portfolio was invested in real estate. This compares to 12.5%, and 11.6%, for the fiscal years ending September 30, 2002, and 2001, respectively.

The real estate portfolio is broadly diversified geographically across the country, by type of property and by class of property. Major property types as of September 30, 2003, included apartments (39%); commercial office buildings (23%); retail centers, including regional malls and grocery-anchored neighborhood shopping centers (20%); and industrial buildings (7%). The remaining 11% of the real estate portfolio was invested in: for sale housing, senior living facilities, hotels, land, and self-storage facilities. For comparison purposes, the System benchmarks its real estate portfolio against the National Council of Real Estate Investment Fiduciaries Property Index (NPI), which is comprised of commercial office buildings (39%), retail centers (20%), apartments (20%), industrial buildings (19%), and hotels (2%).

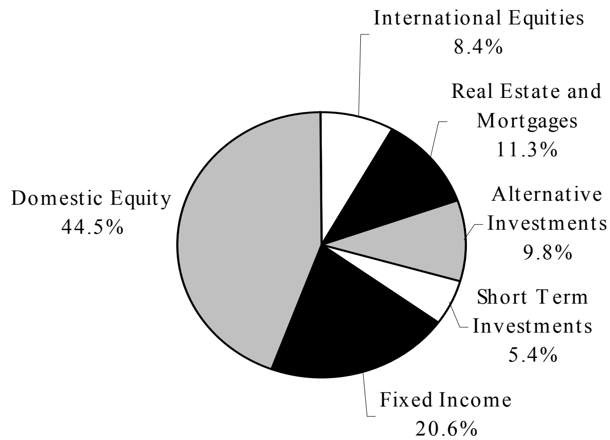
The one-year, three-year, five-year, and ten-year net real estate returns for the fiscal year ending September 30, 2003, were 6.6%, 8.0%, 9.5%, and 9.2% respectively, as compiled by CRA RogersCasey. This compares to NPI returns of 7.1%, 7.1%, 8.7%, and 9.0% relating to the same periods. NPI returns are calculated before advisor fees/overhead while the System's returns are calculated after all advisor fees/overhead, therefore, the NPI returns stated above have been adjusted downward by 75 basis points to approximate comparable industry returns.

Alternative Investments

Alternative Investments are investments in the private equity market, primarily through limited partnerships. Of the investments in limited partnerships, approximately 61% were in partnerships investing in buyouts, 15% in venture capital, 11% in special situations, and 6% in mezzanine. The remaining 7% were investments in fund of funds, hedge funds, and cash. The percentage of assets in alternative investments as of September 30, 2003, is 9.8%. The asset allocation range for alternative investments is 8% to 11%, while the long-term target asset allocation target is 9.0%.

The one-year, three-year, five-year, and ten-year total alternative investment returns for the fiscal year ending September 30, 2003, were 0.5%, -11.2%, 2.3%, and 11.7%, respectively.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2003

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	14.8 %	(2.4) %	4.0 %	8.4 %
Domestic Equities Stock - Active	26.1	(7.1)	0.3	9.0
Domestic Equities Stock - Passive[2]	24.7	(9.0)	2.2	10.4
Standard & Poor's (S&P 500)	24.4	(10.1)	1.0	10.1
Standard & Poor's (MidCap)	26.8	(0.7)	12.0	12.8
International Equities	22.0	(9.3)	1.7	4.1
Net Citigroup BMI - EPAC 50/50	21.3	(9.5)	1.5	3.7
Fixed Income Bonds (U.S. Corp and Govt)	5.2	8.3	6.2	6.9
Citigroup Broad Investment Grade Bond Index	5.5	8.9	6.6	6.9
Lehman Brothers Government/Corporate	6.5	9.6	6.7	7.0
Real Estate and Mortgages	6.6	8.0	9.5	9.2
NCREIF minus 75 Basis Points	7.1	7.1	8.7	9.0
Alternative Investments	0.5	(11.2)	2.3	11.7

[1] Calculations used a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.
[2] Passive portfolio consists of a S&P 500 fund and a S&P Midcap fund. The return is a weighted average of the two funds.

INVESTMENT SECTION

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2003

Rank	Shares	Stocks	Market Value
1	148,894	Microsoft Corporation	$ 4,137,766
2	89,549	Citigroup Incorporated	4,075,380
3	131,148	General Electric Corporation	3,909,508
4	126,475	Pfizer Incorporated	3,842,305
5	59,495	Wal-Mart Stores Incorporated	3,322,819
6	81,311	Exxon Mobil Corporation	2,975,971
7	39,957	Wells Fargo & Company	2,057,776
8	26,225	Bank of America Corporation	2,046,585
9	74,386	Intel Corporation	2,046,369
10	27,086	Federal National Mortgage Association	1,901,433

Largest Bond Holdings (By Market Value)*
September 30, 2003

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 1,649,071	U.S. Treasury Strip 0% Coupon Due 11-15-2011	$ 1,545,839
2	1,452,926	FHLB FRN Due 1-12-2007	1,452,583
3	1,158,904	U.S. Treasury TIGER 0% Coupon Due 8-15-2004	1,145,483
4	726,463	FHLMC 6 1/2% Due 5-23-2011	747,320
5	726,463	FHLB 2.2% Due 5-25-2018	727,843
6	726,463	FHLB FRN Due 7-19-2007	726,218
7	726,463	FHLB FRN Due 2-3-2006	726,015
8	726,463	FHLB FRN Due 8-1-2017	725,929
9	726,463	FHLMC FRN Due 10-28-2014	725,807
10	726,463	FHLB FRN Due 9-10-2007	725,562

* A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 10.4% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisor's fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $33.1 thousand or less than two basis points (.02%) of the market value of the portfolio.

State law created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Consumer and Industry Services and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Investment Managers' Fees:		**Assets under Management (in thousands)**	**Fees (in thousands)**	**Basis Points***
State Treasurer		$ 227,448.6	$ 33.1	1.5
Outside Advisors -	Alternative	24,858.8	304.4	122.4
	Real Estate	1,597.8	-	-
Total		$ 253,905.2		
Other Investment Services Fees:				
Assets in Custody		$ 253,961.4	$ 22.1	
Securities on Loan		6,982.7	119.3	

*Outside Advisors Fees are netted against the income of the partnership and trust income. The partnership agreements define the management fees, which range from 150 to 250 basis points of the committed capital; in most cases the fees are netted against income. For Real Estate the asset management fee ranges from 25 to 90 basis points and is netted against current year's income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2003		
	Commissions Paid [1]	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Citigroup Global Markets, Inc.	$ 3,079	78,702	$ 0.04
Lehman Brothers, Inc.	2,570	60,669	0.04
Morgan Stanley	2,173	49,454	0.04
Merrill Lynch & Co. Pearce, Fenner & Smith Inc.	1,883	45,324	0.04
Bernstein Investment Research & Management	1,747	36,914	0.05
Bridge Trading, A Reuters Company	1,593	37,629	0.04
Bear, Stearns & Co. Inc.	1,555	35,058	0.04
Prudential Securities, Inc.	1,428	28,910	0.05
Credit Suisse First Boston Corporation	1,388	28,719	0.05
Goldman, Sachs & Co.	1,207	26,508	0.05
UBS Financial Securities	1,050	21,907	0.05
J.P. Morgan Securities Inc.	937	18,733	0.05
Deutsche Bank Securities Inc.	524	10,473	0.05
SG Cowen Securities Corporation	508	10,151	0.05
International Strategy & Investment Group Inc.	387	7,744	0.05
Banc of America Securities, LLC	363	7,253	0.05
OTA LLC	270	6,602	0.04
Charles Schwab & Co., Inc.	226	4,520	0.05
Cantor Fitzgerald & Co.	202	6,749	0.03
Keefe, Bruyette & Woods, Inc.	143	2,867	0.05
Howard, Weil, Labouisse, Friedrichs Inc.	112	2,240	0.05
Total	$ 23,345	527,126	$ 0.04 [2]

[1] These amounts are included in purchase and sale prices of investments.
[2] The average commission rate per share for all brokerage firms.

Investment Summary

Fiscal Year Ended September 30, 2003

	Market Value [(a)]	Percent of Total Market Value	Investment & Interest Income [(c)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 32,398,935	12.8%	$ 962,956	2.8%
Corporate Bonds	19,833,934	7.8%	1,723,357	4.9%
Total Fixed Income	52,232,869	20.6%	2,686,313	7.7%
Common and Preferred Stock	113,100,969	44.5%	24,900,774	71.3%
Real Estate and Mortgages	28,718,203	11.3%	1,872,315	5.3%
Alternative	24,858,846	9.8%	1,491,689	4.3%
International Equities	21,229,017	8.4%	3,755,459	10.8%
Short Term Investments [(b)]	13,765,281	5.4%	197,586	0.6%
Total	$ 253,905,185	100.0%	$ 34,904,136	100.0%

[a] Short Term Investments are at cost, which approximates market value.

[b] Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. Amount also excludes $6,974,336 in cash collateral for security lending for fiscal year 2003.

[c] Total Investment & Interest Income excludes net security lending income of $24,553 for fiscal year 2003.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2002

	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [c]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 36,246,362	15.5%	$ 2,376,814	-9.2%
Corporate Bonds	22,694,055	9.7%	1,974,600	-7.7%
Total Fixed Income	58,940,417	25.2%	4,351,414	-16.9%
Common and Preferred Stock	98,111,657	41.9%	(24,325,876)	94.3%
Real Estate and Mortgages	29,159,837	12.5%	2,354,841	-9.1%
Alternative	23,817,881	10.2%	(5,768,807)	22.4%
International Equities	15,373,340	6.6%	(2,789,851)	10.8%
Short Term Investments [b]	8,499,043	3.6%	386,089	-1.5%
Total	$ 233,902,175	100.0%	$ (25,792,190)	100.0%

[a] Short Term Investments are at cost, which approximates market value.

[b] Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. Amount also excludes $8,722,667 in cash collateral for security lending for fiscal year 2002.

[c] Total Investment & Interest Income excludes net security lending income of $45,525 for fiscal year 2002.

ACTUARIAL SECTION

Actuarial Section

Actuary's Certification

SEGAL

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Michael J. Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary
mkarlin@segalco.com

November 21, 2003

Mr. Mitch Irwin
Director
Department of Management and Budget
and
Retirement Board
Michigan Judges Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan Judges Retirement System (MJRS) is funded on an actuarial reserve basis. The basic financial objective of MJRS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MJRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2003 included a total of 901 members of MJRS. The actuarial value of MJRS's assets amounted to approximately $292 million on September 30, 2003.

The actuarial assumptions used in the 2003 valuation are the same as those used in the previous annual actuarial valuation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MJRS as of September 30, 2003 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2003 valuation results, it is also our opinion that the Michigan Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, the 8% investment return rate translates to an assumed real rate of 4%. Adopted 1981.

2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.

3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 1998.

5. Total active member payroll is assumed to increase 0% per year, because new employees participate in the defined contribution program. Adopted 1996.

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gain and losses, are financed over a period of 40 years on a declining basis beginning October 1, 1996. Adopted 1996.

7. Valuation assets (cash and investment) were valued using a five-year smoothed market value method. For the 1993 valuation and later, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1993.

8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board after consulting with the actuary.

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
55-59	8 %
60-64	12
65-69	12
70	20
71	30
72	40
73	50
74	75
75	100

SCHEDULE 2

Separation From Active Employment Before
Age & Service Retirement & Individual Pay Increase Assumptions

Sample Ages	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year (Men and Women)	Percent Increase In Pay During Next Year
20		0.00 %	4.5 %
25		0.01	4.5
30	1.5 %	0.02	4.5
35	1.5	0.04	4.5
40	1.5	0.11	4.5
45	1.5	0.26	4.5
50	1.5	0.45	4.5
55	1.5	0.65	4.5
60	1.5	0.90	4.5

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active Members Number	Active Reported Annual Payroll	Active Average Annual Payroll	Active % Increase	Active Average Age	Active Average Service
1994	26	608	$ 46,276,785	$ 76,113	4.5 %	53.4	10.5
1995	26	614	48,195,528	78,494	3.1	52.8	10.9
1996	28	610	49,350,572	80,903	3.1	53.6	11.7
1997	25	609	49,000,856	80,461	(0.5)	52.8	11.4
1998	24	600	48,865,572	81,443	1.2	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls–End of Year No.	Rolls–End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1994	24	$ 794,810	12	$ 303,091	446	$ 11,323,272	4.5 %	$ 25,389
1995	50	1,700,945	15	409,064	481	12,615,153	11.4	26,227
1996	19	708,409	19	424,164	481	12,899,398	2.3	26,818
1997	40	1,663,656	9	359,441	512	14,203,613	10.1	27,741
1998	26	696,745	24	556,833	514	14,343,525	1.0	27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	9	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	38	1,099,372	22	520,658	551	17,298,360	10.3	31,395

Prioritized Solvency Test

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a byproduct of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

	Actuarial Present Value of Actuarial Accrued Liability ($ in Millions)				Portion of Present Value Covered by Assets			
Valuation Date Sept. 30	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)*
1994	$ 32,364	$ 89,649	$ 74,978	$ 202,371	100 %	100 %	107.2 %	102.7 %
1995	34,358	96,574	73,395	222,230	100	100	124.4	108.8
1996	38,766	96,633	76,102	243,248	100	100	141.7	115.0
1997	39,637	118,717	72,157	271,458	100	100	156.7	117.8
1998	43,378	116,264	76,879	288,671	100	100	167.8	122.0
1998 **	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2

* Percents funded on a total valuation asset and total actuarial accrued liability basis.

** Revised actuarial assumptions

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2003
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ 1,902,104
2.	**Withdrawal From Employment** (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(46,022)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	4,766,924
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(7,792,939)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(3,195,054)
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(328,942)
8.	**Composite Gain (or Loss) During Year**	$ (4,693,929)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2003, is based on the present provision of Public Act No. 234 of 1992.

Regular Retirement

Eligibility — Age 60 with 8 years credited service; or age 55 with 18 years credited service, or 25 years with no age requirement.

Annual Amount — If less than 12 years of credited service, 3% of final annual compensation times years of credited service; for 12 or more years of credited service, 50% of final annual compensation plus 2.5% of such compensation for each year of credited service in excess of 12 years to a maximum of 60%. Former System members receive 3% of final annual compensation times years of credited service to a maximum of the greater of 40% of final annual compensation or $15,000, but not to exceed 66 2/3% of final annual compensation when added to a local retirement system benefit; or 3.5% of final annual compensation times years of credited service to a maximum of 66 2/3% of final annual compensation if elected.

Final Annual Compensation — Annual State salary at time of retirement plus State salary standardization, if any. For former System members, final annual compensation is member's certified salary at time of retirement. For 36th District Court judges, final annual compensation is total State and district control unit salary at time of retirement. For probate judges serving in a single county of less than 15,000 population, final annual compensation is total judicial salary at the time of retirement.

Early Retirement (age reduction factor used)

Eligibility — Age 55 with 12 but less than 18 years credited service.

Annual Amount — Regular retirement benefit, reduced by 1/2% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility — 8 years of credited service.

Annual Amount — Regular retirement benefit. If less than 12 years of credited service, payable at age 60; if 18 or more years of credited service payable at age 55; if more than 12 but less than 18 years of credited service reduced amount payable at age 55.

Disability Retirement

Eligibility — 8 years of credited service.

Annual Amount — Regular retirement benefit, based upon member's credited service and final salary at time of disability.

Death Before or After Retirement (Spouse or Dependent Children)

Eligibility — 8 years of credited service.

Annual Amount — 50% of the member's accrued pension.

Summary of Plan Provisions (Continued)

Post Retirement Cost-of-Living Adjustments

None, except that judges who were active judges prior to September 8, 1961, (and their survivors) have their benefits adjusted as active judges' salaries change.

Member Contributions

Non-Trial Judges: 5% of salary (1.5% for health benefits).

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

Probate Judges under 3% Formula: 7% of salary to maximum of $980.

Probate Judges under 3.5% Formula: 7% of salary (no maximum).

District Court Judges of the Thirty-sixth District: 3.5% of salary.

Defined Contribution Legislation — Public Act 523 of 1996

New employees hired on or after March 31, 1997, become participants in Tier 2 (i.e. a defined contribution plan) rather than Tier 1 (the above described defined benefit plan).

Active members on March 30, 1997, had an opportunity to irrevocably elect to terminate membership in Tier 1 and become participants in Tier 2. Elections were in writing and submitted between January 2, 1998, and April 30, 1998. Such members became Tier 2 participants on June 1, 1998, and had the actuarial present value of their Tier 1 accrued benefit transferred into Tier 2 by September 30, 1998.

On June 30, 1998, a case was filed by various Judges' Associations and Judges in connection with the Defined Contribution Plan. On November 22, 1999, a tentative settlement was read into the record. This settlement includes resolutions regarding the participation of trial judges in the DC plan, as well as a number of enhancements which have been thoroughly discussed with the Office of Retirement Services and are supported by the Governor's office. The proposed settlement was effectuated through passage of legislation. Approximately $76.9 million was transferred to the Defined Contribution Retirement Plan in October 2000.

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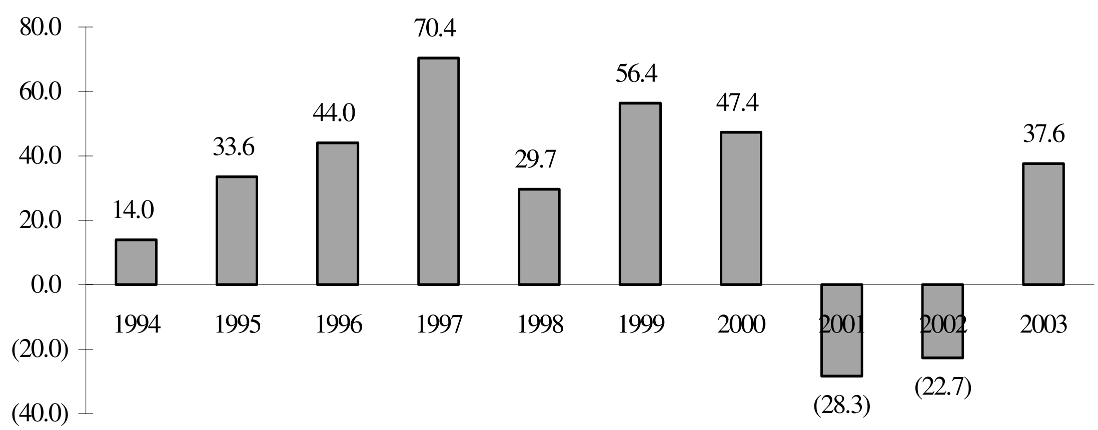
STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept 30	Member Contributions	Net Court Fees	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1994	$ 2,811,231	$4,926,397	$1,650,598	3.57	$ 4,598,657	$ 13,986,883
1995	2,915,335	5,263,144	1,614,633	3.35	23,803,055	33,596,167
1996	2,975,239	4,635,563	1,556,044	3.15	34,867,041	44,033,887
1997	3,208,635	4,080,730	1,592,853	3.25	61,494,465	70,376,683
1998	3,214,706	-	246,659	0.50	26,250,205	29,711,570
1999	3,316,840	-	58,499	0.12	53,008,576	56,383,915
2000	3,199,407	-	-	0.00	44,164,101	47,363,508
2001	2,649,892	-	-	0.00	(30,995,562)	(28,345,670)
2002	3,220,211	100,000	-	0.00	(25,998,096)	(22,677,885)
2003	2,739,643	265,000	-	0.00	34,560,288	37,564,931

Total Revenues
Year Ended September 30
(In Millions)

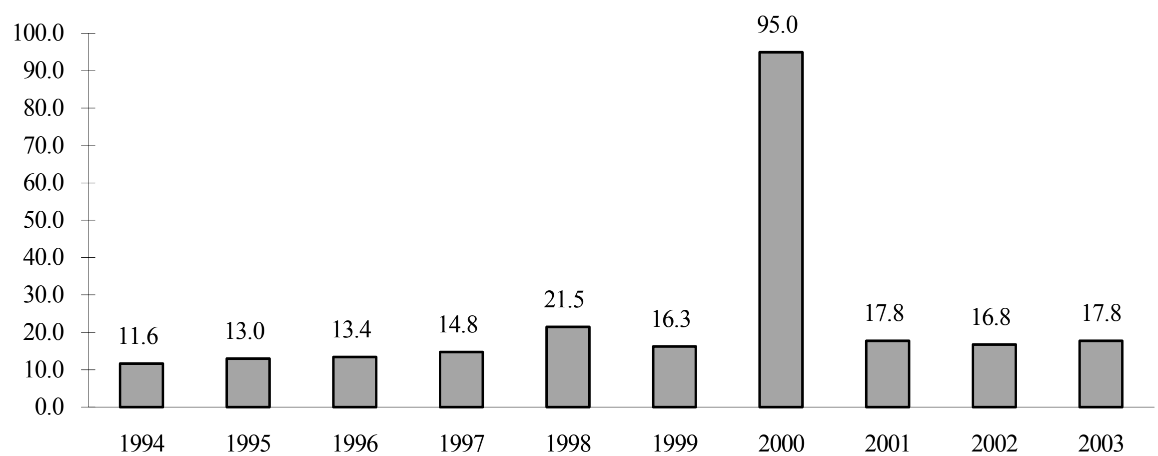


Schedule of Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments*	Refunds and Transfers	Administrative Expenses	Total
1994	$ 11,173,171	$ 28,444	$ 436,764	$ 11,638,379
1995	12,404,307	91,861	470,760	12,966,928
1996	12,877,528	16,266	514,406	13,408,200
1997	14,157,040	236,326	395,428	14,788,794
1998	14,660,076	6,641,662	197,743	21,499,481
1999	15,231,572	913,381	148,116	16,293,069
2000	15,711,223	78,765,632	517,046	94,993,901
2001	16,298,650	975,633	500,501	17,774,784
2002	16,329,620	52,862	404,983	16,787,465
2003	17,292,818	1,074	500,590	17,794,482

*Includes health, dental and vision benefits.

Total Expenses
Year Ended September 30
(In Millions)



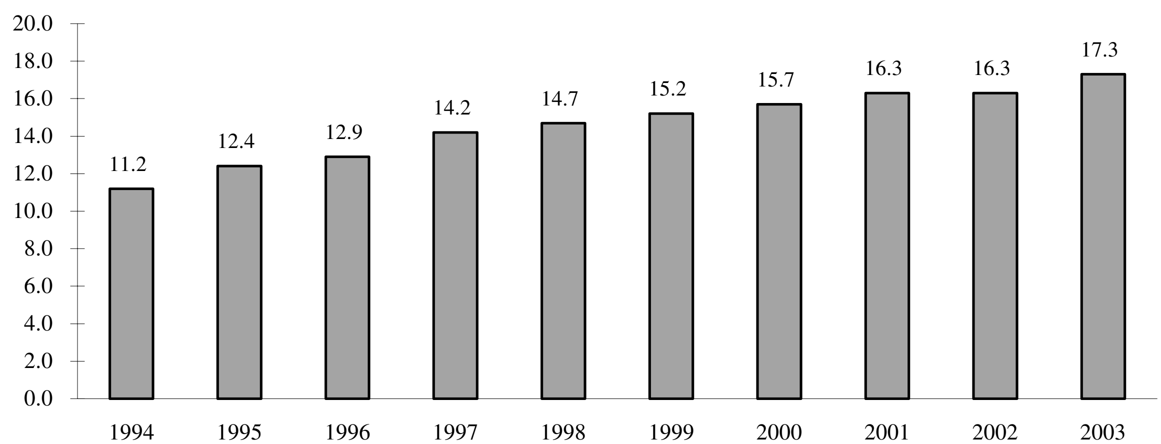
Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Health Benefits**	Total
1994	$ 11,041,755	*	$ 131,416	$ 11,173,171
1995	12,012,426	$ 273,424	118,457	12,404,307
1996	12,464,285	294,976	118,267	12,877,528
1997	13,491,097	348,192	317,751	14,157,040
1998	13,922,718	381,835	355,523	14,660,076
1999	14,435,420	397,155	398,997	15,231,572
2000	14,818,706	442,172	450,345	15,711,223
2001	15,352,750	440,441	505,459	16,298,650
2002	15,375,626	434,325	519,669	16,329,620
2003	16,236,804	491,213	564,801	17,292,818

* Disability benefits included with regular benefits.

** Includes dental and vision benefits.

Total Benefit Expenses
Year Ended September 30
(In Millions)



Schedule of Retired Members by Type of Benefit
September 30, 2003

Amount Monthly Benefit	Number of Retirees	Type of Retirement* 1	2	3	4	5	Selected Option** Opt 1	Opt 2	Opt 3
$ 0-400	7	2	3	2	0	0	7	0	0
401-800	49	13	31	5	0	0	42	6	1
801-1,200	55	26	21	5	3	0	45	9	1
1,201-1,600	57	30	20	7	0	0	46	9	2
1,601-2,000	70	29	28	10	3	0	61	8	1
2,001-2,400	33	17	12	3	1	0	17	16	0
2,401-2,800	42	32	9	0	1	0	35	6	1
2,801-3,200	29	26	1	0	2	0	15	14	0
3,201-3,600	49	44	4	1	0	0	33	15	1
3,601-4,000	67	62	2	1	1	1	57	9	1
4,001-4,400	93	87	2	1	3	0	83	10	0
Totals	551	368	133	35	14	1	441	102	8

* Type of Retirement

1 - Normal retirement for age & service
2 - Survivor payment - Normal retirement
3 - Survivor payment - Death in service
4 - Non-duty disability retirement
5 - Survivor payment - Disability retirement

**Selected Option

Opt. 1. - Straight life allowance
Opt. 2 - 100% survivor option
Opt. 3 - 50% survivor option

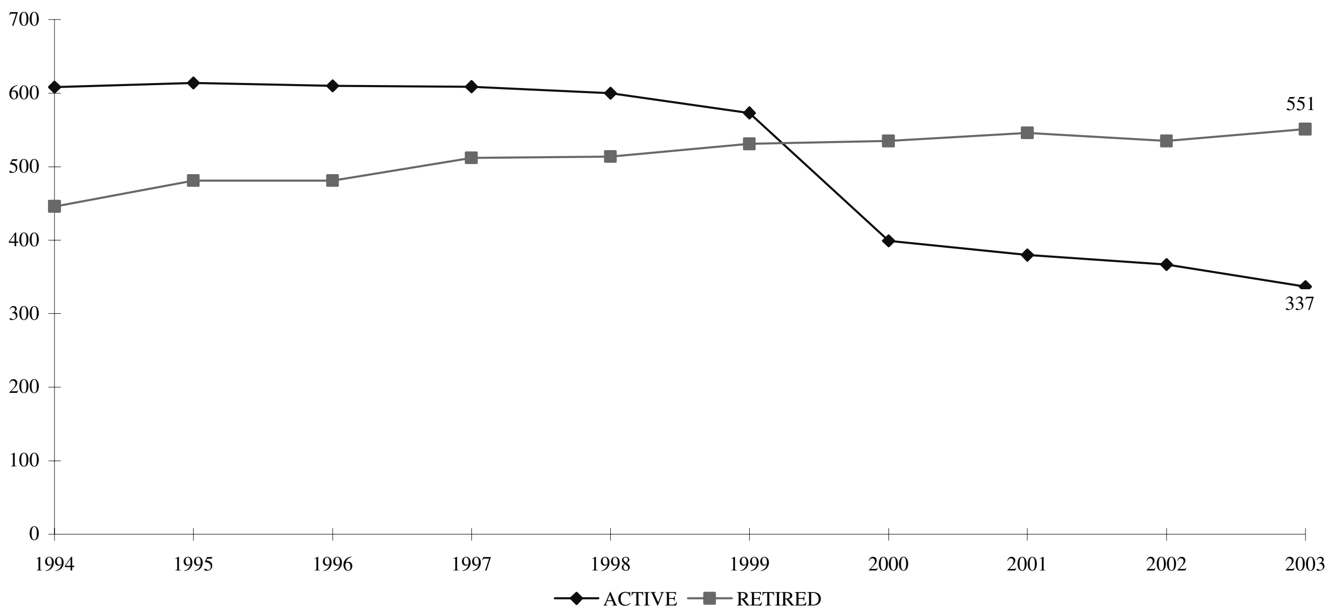
Source: The Segal Company

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	$ 824	$ 1,197	$ 1,555	$ 2,396	$ 2,844	$ 2,327	$ 2,624	$ 2,228
Average Final Average Salary	3,900	51,478	46,294	53,387	61,170	52,693	54,972	52,911
Number of Active Retirants	5	26	108	172	108	46	16	481
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 911	$ 1,228	$ 1,561	$ 2,472	$ 2,883	$ 2,439	$ 3,089	$ 2,312
Average Final Average Salary	3,250	54,667	47,584	56,426	62,947	56,764	64,058	55,663
Number of Active Retirants	6	26	110	181	118	50	21	512
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 860	$ 1,161	$ 1,568	$ 2,478	$ 2,942	$ 2,499	$ 3,113	$ 2,325
Average Final Average Salary	2,437	53,853	49,030	57,069	64,355	76,821	63,379	58,228
Number of Active Retirants	8	26	110	180	119	51	20	514
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 908	$ 1,148	$ 1,630	$ 2,522	$ 2,948	$ 2,476	$ 3,409	$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 923	$ 1,240	$ 1,637	$ 2,588	$ 2,990	$ 2,429	$ 3,477	$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 1,144	$ 1,365	$ 1,668	$ 2,618	$ 3,080	$ 2,628	$ 3,761	$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 1,144	$ 1,363	$ 1,712	$ 2,618	$ 3,015	$ 2,718	$ 3,904	$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 1,026	$ 1,251	$ 1,978	$ 2,771	$ 3,217	$ 2,722	$ 4,197	$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551

Source: The Segal Company

Ten Year History of Membership
Fiscal Years Ended September 30



Source: The Segal Company

STATISTICAL SECTION

Schedule of Participating Employers through 9/30/03

Elected Offices
Supreme Court
Court Of Appeals
Recorders Court
02nd Circuit Court
03rd Circuit Court
04th Circuit Court
05th Circuit Court
06th Circuit Court
07th Circuit Court
08th Circuit Court
09th Circuit Court
10th Circuit Court
12th Circuit Court
13th Circuit Court
14th Circuit Court
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39th Circuit Court
40th Circuit Court
41st Circuit Court
42nd Circuit Court
46th Circuit Court
56th Circuit Court
57th Circuit Court
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03rd District Court
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63rd District Court
64th District Court
65th District Court
66th District Court
67th District Court
68th District Court
70th District Court
71st District Court
72nd District Court
73rd District Court

Schedule of Participating Employers through 9/30/03 (Continued)

74th District Court
75th District Court
76th District Court
77th District Court
78th District Court
79th District Court
80th District Court
81st District Court
82nd District Court
84th District Court
85th District Court
86th District Court
87th District Court
88th District Court
90th District Court
91st District Court
92nd District Court
93rd District Court
94th District Court
95th District Court
97th District Court
98th District Court
Alcona Probate Court
Alpena Probate Court
Barry Probate Court
Bay Probate Court
Berrien Probate Court
Branch Probate Court
Calhoun Probate Court
Cass Probate Court
Chippewa Probate Court
Clare Probate Court
Clinton Probate Court
Crawford Probate Court
Emmet Probate Court
Genesee Probate Court
Gogebic Probate Court
Houghton Probate Court
Huron Probate Court
Ionia Probate Court
Iosco Probate Court
Iron Probate Court
Isabella Probate Court
Jackson Probate Court
Kalamazoo Probate Court
Kent Probate Court
Lake Probate Court
Leelanau Probate Court
Lenawee Probate Court
Livingston Probate Court
Luce Probate Court
Mackinac Probate Court
Macomb Probate Court
Mason Probate Court
Mecosta Probate Court
Monroe Probate Court
Montcalm Probate Court
Muskegon Probate Court
Oceana Probate Court
Ogemaw Probate Court
Ontonagon Probate Court
Oscoda Probate Court
Ottawa Probate Court
Presque Isle Probate Court
Sanilac Probate Court
Shiawassee Probate Court
St Clair Probate Court
St Joseph Probate Court
Washtenaw Probate Court
Wayne Probate Court
Wexford Probate Court

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The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2002-2003 report included:

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The report may be viewed on-line at: www.michigan.gov/ors